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ABSTRACT

This digest of a full report of the same title critically examines the cost controversy in higher education to better understand the types of financial strategies that can help resolve the crisis in college costs. A look at why these costs are so controversial finds that rapid rise in tuition, public debate about educational expenditures and real or alleged waste, and concerns over access, have increased debate about public funding of college costs and weakened public confidence in higher education institutions. In exploring the role of federal and state policies contributing to the controversy, the analysis finds changes in federal policy influenced the overall pattern of enrollment redistribution and indirectly influenced price increases in private colleges. At the state level the analysis finds that declines in state support have led to increases in tuition at public institutions, that decreased appropriations by states usually lead to increased tuition charges, decreased grants, and reduced minority participation. A look at institutional policies and their contribution to the controversy examines why prices increased, changes in productivity, and the quality of investment in higher education. Final sections explore whether the negative effects of cost increase can be reduced, improving productivity, and improving returns on education. (Contains 7 references.) (JB)

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Prices, Productivity, and Investment Assessing Financial Strategies in Higher Education

Edward P. St. John

Why Are College Costs Controversial?

The controversy over college costs first surfaced in the mid-1980s after a half decade of rising tuitions. The U.S. Congress mandated Secretary of Education William Bennett to conduct a study of college costs, focusing on why costs were increasing and how the federal government could maintain access and possibly mitigate future cost increases. The intent of Congress had been to focus on why the *prices* students paid were rising, but Secretary Bennett responded to the mandate by initiating studies that examined the growth in *educational expenditures* as an explanation for rising prices. Senior officials in the U.S. Department of Education also argued that student financial aid did not influence access or expenditures (Bennett 1986). National associations responded to these claims by arguing that increases in tuition could be attributed to reductions in federal grants and state appropriations (Association of Governing Boards 1986). During the past decade, the controversy over college costs has continued, and tuitions have continued to rise faster than inflation. In the face of mounting prices--and frequent articles in the popular press that claim (or imply) prices are increasing because of waste--taxpayers in many states have backed off their historic commitment to fund public higher education.

Did Federal Policies Contribute to the Controversy?

During the late 1970s and early 1980s, total federal expenditures for student grants declined, while the use of loans expanded and the participation of minorities in higher education also declined. The Department and its contractors ignored the fact that federal policies might have contributed to the decline in the participation rates of minorities, just as they had ignored the fact that these policies might have influenced rising tuitions.

Recent studies of the effects of federal student aid programs have documented that the shift from grants to loans in the 1980s directly influenced the downturn in the access of minorities to higher education and indirectly influenced the rate of growth in tuition, especially in private colleges. Many private institutions used their own sources of revenue to substitute for the loss of federal grants. Thus, the changes in federal policy influenced the overall pattern of enrollment redistribution and indirectly influenced price increases in private colleges.

Did State Policies Contribute to the Controversy?

During the early 1980s, the burden for financing public higher education shifted from states to students and their families (Kramer 1993). An examination of the controversy acknowledged that institutions responded to reductions in state funding by raising tuition but claimed that increases in tuition did not influence enrollment (State Higher Education 1988).

This shift in the pattern of public finance of higher education has markedly influenced the controversy over costs. First, the decline in state support has influenced tuitions in the public sector to rise. Second, when most states cut appropriations to grant programs, they cut institutional appropriations, influencing a simultaneous increase in tuitions and decrease in grants. Third, research indicates that these changes contributed to the decline in the participation rates of minorities in the early 1980s (St. John 1993). Further, it appears that access is also being eroded by the financial crisis of the early 1990s.

Did Institutional Policies Contribute to the Controversy?

Throughout this period, national associations have focused on how to tell their story about tuition increases. Their reports encouraged institutions to point out how state and federal policies influenced increases in tuition and the improvements in quality they were making in the services they provide to undergraduates (Association of Governing Boards 1986). Most associations and many institutional officials dismissed the claim that inefficiencies contributed to rising tuitions.

Why have prices increased? The research on college costs has identified three reasons for increases in tuition during the past 14 years. First, federal student aid policies have influenced many private colleges to raise tuition to generate more revenue for grants (Hauptman 1990). Second, states have shifted a larger share of the burden for financing public colleges and universities to students and their families, which has influenced public tuitions to rise (Kramer 1993). Third, an incremental increase in educational expenditures also contributed to rising costs (Getz and Siegfried 1991).

Has higher education's productivity changed? The basic production functions influencing instructional costs--student/faculty ratios, average class sizes, and so

forth--changed very little during the past decades. Faculty and administrators have few incentives to adopt more productive behavior. Faculty are rewarded for their productivity in research rather than in teaching. And administrators are rewarded based on their portfolios--the number of programs and staff they manage--rather than for their efficiency. Thus, the instructional productivity of colleges and universities has gradually eroded during the second half of the 20th century.

Is higher education a good investment? Higher education is a good investment for students, and the financial returns on an individual's investment are substantial. Further, if tax revenues are considered as a return on government investment, then it appears that federal and state investment in education have a substantial return for every dollar spent. Tax revenue returns by themselves, however, provide a poor basis for arguing that more should be spent (Kramer 1993), especially if the historic problems with productivity continue to be ignored.

Can the Negative Effects of Price Increases be Reduced?

Throughout the past decade, this question, which Congress raised when it mandated that the Secretary of Education conduct a study of college costs, has largely gone unaddressed. Research on the effects of recent changes in financial strategy in higher education provides some insight, however. Middle-income students responded positively to the increased emphasis on loans in the 1980s, while loans per se had little influence on low-income and minority enrollments. Low-income students were negatively influenced by tuition charges and positively influenced by grants. When tuitions increased and grants declined in the early 1980s, minority participation rates also declined, especially for African-Americans. Therefore, emphasizing loans could be more cost-effective to the federal government than placing a heavy emphasis on grants, if the negative effects of loans are minimized for low-income students. Thus, the federal government should make a more consistent and concerted effort to monitor the effects of its policy changes on access than it has since the mid-1970s.

Can Productivity Be Improved?

The cost controversy has cast a shadow of blame and doubt over higher education. Higher education, unlike private industry, has historically absorbed new technologies without improving productivity. A substantial turnover in faculty should occur during the next ten years as massive numbers of faculty hired in the 1960s and early 1970s retire. In theory, this turnover and the new technologies available create opportunities for improving productivity.

Successful efforts to improve productivity in higher education, however, should consider the internal incentive structure in the academic community. Increased decentralization of financial strategy might be necessary to create incentives for more faculty to experiment with approaches that improve educational outcomes (meaningful gains in productivity). Colleges and universities should consider pay incentives for improvements in instructional productivity. If the incentive structure can be appropriately modified, then it is possible that a new form of professional responsibility could emerge.

Questions related to the causes and consequences of rising administrative costs merit closer examination within colleges and universities and within government agencies. Recent studies paint two types of pictures: one of administrative excesses contributing to rising tuitions, the other of increasing professionalization in administrative services helping higher education to avert the financial disaster that was predicted for the 1980s.

Can Returns on Higher Education Be Improved?

A central issue facing the academic community is whether the returns on investment can be improved. In other words, having good returns might no longer be sufficient rationale for justifying public support, given that a shrinking percentage of the population can afford the full direct costs of higher education. Further, the fact that students have high returns might not help institutions in marketing when students are confronted by high levels of personal debt. Therefore, states and the federal government are confronted by questions about how to optimize the strategies they use to finance higher education. And institutions are confronted by very basic questions about whether they can improve returns through improvements in productivity. These questions merit the attention of the academic and policy communities.

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